



U.S. ENERGY CORP.

877 NORTH 8th WEST

PHONE (307) 856-9271

RIVERTON, WYOMING 82501

M/037/040

November 25, 2003

State of Utah
Department of Natural Resources
Division of Oil and Gas and Mining
1594 West North Temple, Suite 1210
Salt Lake City, UT 84114-5801
Attn: Mr. Paul Baker

RECEIVED

NOV 28 2003


DIV. OF OIL, GAS & MINING

Re: Velvet Mine, M/037/040, New Bond and Reclamation Contract

Dear Mr. Baker:

Attached is the new bond, in the amount of \$23,400, and the new Reclamation Contract for Velvet Mine, permit no. M/037/040, located in San Juan County, Utah. Should you have any questions please contact me at (307) 856-9271.

Sincerely,
U.S. Energy Corp.


Fred Craft

Attachments (2)

cc: File



0001 - Confidential
0002 - Public

Insurance Companies

11/037/0040

NOV 19 RECD

RECEIVED

NOV 28 2003

HOME OFFICE OR BRANCH SERVICE OFFICE - DES MOINES, IOWA

EMPLOYERS MUTUAL CASUALTY COMPANY

CHANGE ENDORSEMENT OR RIDER

DIV OF OIL GAS & MINING

ATTACHED TO AND FORMING
PART OF BOND OR POLICY NO.

DATE ENDORSEMENT OR RIDER
EXECUTED

10/08/03

EFFECTIVE DATE OF
ENDORSEMENT OR RIDER

09/25/03

Obligee:

STATE OF UTAH
DEPT OF NATURAL RESOURCES
DIVISION OF OIL GAS & MINE
355 WEST NORTH TEMPLE
3 TRIAD CENTER SUITE 350
SALT LAKE CITY, UT 841801203

Agent:

WYOMING FINANCIAL INSURANCE INC
400 E 1ST ST
PO BOX 130
CASPER, WY 826020130
AGENT NO. AW-6260-0

Principal:

U S ENERGY CORPORATION
877 NORTH 8TH WEST
RIVERTON, WY 82501

It is hereby agreed that the words:

BOND AMOUNT OF SIXTY-THREE THOUSAND NINE HUNDRED DOLLARS
(\$63,900)

are hereby deleted,

And the words;

BOND AMOUNT OF TWENTY-THREE THOUSAND FOUR HUNDRED DOLLARS
(\$23,400)

are hereby substituted therefor;

Provided that, no amount carried under the Bond during any period shall be cumulative with the amount or amounts carried under the Bond during any other period or periods.

EMPLOYERS MUTUAL CASUALTY COMPANY

ACCEPTED BY PRINCIPAL: U S ENERGY CORPORATION

By:

By:

TODD GOOD

Attorney-in-fact

ACCEPTED BY OBLIGEE: STATE OF UTAH

By:

DATE OF ENTRY: 10/08/03

EMC Insurance Companies

HOME OFFICE OR BRANCH SERVICE OFFICE - DES MOINES, IOWA

EMPLOYERS MUTUAL CASUALTY COMPANY

CHANGE ENDORSEMENT OR RIDER

ATTACHED TO AND FORMING
PART OF BOND OR POLICY NO.

DATE ENDORSEMENT OR RIDER
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ENDORSEMENT OR RIDER

09/25/03

Obligee:

STATE OF UTAH
DEPT OF NATURAL RESOURCES
DIVISION OF OIL GAS & MINE
355 WEST NORTH TEMPLE
3 TRIAD CENTER SUITE 350
SALT LAKE CITY, UT 841801203

Agent:

WYOMING FINANCIAL INSURANCE INC
400 E 1ST ST
PO BOX 130
CASPER, WY 826020130
AGENT NO. AW-6260-0

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U S ENERGY CORPORATION
877 NORTH 8TH WEST
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EMPLOYERS MUTUAL CASUALTY COMPANY

ACCEPTED BY PRINCIPAL: U S ENERGY CORPORATION

By: 

By: 

TODD GOOD

Attorney-in-fact

ACCEPTED BY OBLIGEE: STATE OF UTAH

By: 

EMC Insurance Companies

P.O. Box 712 • Des Moines, IA 50303-0712

No. 516493

CERTIFICATE OF AUTHORITY INDIVIDUAL ATTORNEY-IN-FACT**KNOW ALL MEN BY THESE PRESENTS, that:**

1. Employers Mutual Casualty Company, an Iowa Corporation
2. EMCASCO Insurance Company, an Iowa Corporation
3. Union Insurance Company of Providence, an Iowa Corporation
4. Illinois EMCASCO Insurance Company, an Iowa Corporation

5. Dakota Fire Insurance Company, a North Dakota Corporation
6. EMC Property & Casualty Company, an Iowa Corporation
7. The Hamilton Mutual Insurance Company, an Ohio Corporation

hereinafter referred to severally as "Company" and collectively as "Companies", each does, by these presents, make, constitute and appoint:

PAUL BURTCH, ROCKY W. POFAHL, TODD GOOD, MICHAEL A. PAEZ, INDIVIDUALLY, AURORA, COLORADO

its true and lawful attorney-in-fact, with full power and authority conferred to sign, seal, and execute its lawful bonds, undertakings, and other obligatory instruments of a similar nature as follows:

ANY AND ALL BONDS

and to bind each Company thereby as fully and to the same extent as if such instruments were signed by the duly authorized officers of each such Company, and all of the acts of said attorney pursuant to the authority hereby given are hereby ratified and confirmed.

The authority hereby granted shall expire April 1, 2006 unless sooner revoked.**AUTHORITY FOR POWER OF ATTORNEY**

This Power-of-Attorney is made and executed pursuant to and by the authority of the following resolution of the Boards of Directors of each of the Companies at a regularly scheduled meeting of each company duly called and held in 1999:

RESOLVED: The President and Chief Executive Officer, any Vice President, the Treasurer and the Secretary of Employers Mutual Casualty Company shall have power and authority to (1) appoint attorneys-in-fact and authorize them to execute on behalf of each Company and attach the seal of the Company thereto, bonds and undertakings, recognizances, contracts of indemnity and other writings obligatory in the nature thereof, and (2) to remove any such attorney-in-fact at any time and revoke the power and authority given to him or her. Attorneys-in-fact shall have power and authority, subject to the terms and limitations of the power-of-attorney issued to them, to execute and deliver on behalf of the Company, and to attach the seal of the Company thereto, bonds and undertakings, recognizances, contracts of indemnity and other writings obligatory in the nature thereof, and any such instrument executed by any such attorney-in-fact shall be fully and in all respects binding upon the Company. Certification as to the validity of any power-of-attorney authorized herein made by an officer of Employers Mutual Casualty Company shall be fully and in all respects binding upon this Company. The facsimile or mechanically reproduced signature of such officer, whether made heretofore or hereafter, wherever appearing upon a certified copy of any power-of-attorney of the Company, shall be valid and binding upon the Company with the same force and affect as though manually affixed.

IN WITNESS WHEREOF, the Companies have caused these presents to be signed for each by their officers as shown, and the Corporate seals to be hereto affixed this 9th day of January, 2003.

Seals



RUTA KRUMINS
Commission Number 176255
My Comm. Exp. Sept. 30, 2003

Bruce G. Kelley
Bruce G. Kelley, Chairman
of Companies 2, 3, 4, 5 & 6; President
of Company 1; Vice Chairman and
CEO of Company 7

Jeffrey S. Birdsley
Jeffrey S. Birdsley
Assistant Secretary

On this 9th day of January AD 2003 before me a Notary Public in and for the State of Iowa, personally appeared Bruce G. Kelley and Jeffrey S. Birdsley, who, being by me duly sworn, did say that they are, and are known to me to be the Chairman, President, Vice Chairman and CEO, and/or Assistant Secretary, respectively, of each of The Companies above; that the seals affixed to this instrument are the seals of said corporations; that said instrument was signed and sealed on behalf of each of the Companies by authority of their respective Boards of Directors; and that the said Bruce G. Kelley and Jeffrey S. Birdsley, as such officers, acknowledge the execution of said instrument to be the voluntary act and deed of each of the Companies.
My Commission Expires September 30, 2003.

Ruta Krumins
Notary Public in and for the State of Iowa

CERTIFICATE

I, David L. Hixenbaugh, Vice President of the Companies, do hereby certify that the foregoing resolution of the Boards of Directors by each of the Companies, and this Power of Attorney issued pursuant thereto on January 9, 2003 on behalf of Paul Burch, Rocky W. Pofahl, Todd Good, Michael A. Paez are true and correct and are still in full force and effect.

In Testimony Whereof I have subscribed my name and affixed the facsimile seal of each Company this 25TH day of SEPTEMBER, 2003

David L. Hixenbaugh
Vice-President

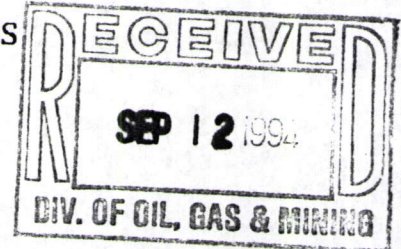
ATTACHMENT B

MR FORM 5

April 8, 1993

Bond Number
Permit Number M/037/040
Mine Name Velvet

STATE OF UTAH
DEPARTMENT OF NATURAL RESOURCES
Division of Oil, Gas and Mining
355 West North Temple
3 Triad Center Suite 350
Salt Lake City, Utah 84180-1203
(801) 538-5340



THE MINED LAND RECLAMATION ACT

SURETY BOND

The undersigned U.S. Energy Corporation as
Principal, and Employers Mutual Casualty Company, as
Surety, hereby jointly and severally bind ourselves, our heirs, administrators, executors,
successors, and assigns, jointly and severally, unto the State of Utah, Division of Oil,
Gas and Mining (Division) in the penal sum of sixty three thousand nine hundred and
dollars (\$ -----63,900.00-----) n0/100

Principal has estimated in the Mining and Reclamation Plan approved by the
Division on the 27th day of January, 19 84, that 21.9
acres of land will be disturbed by mining operation in the State of Utah.

A description of the disturbed land is attached as "Attachment A" to the
Reclamation Contract, of which this document is an integral part.

The condition of this obligation is that if the Division determines that Principal
has satisfactorily reclaimed the disturbed lands in accordance with the approved Mining
and Reclamation Plan and has faithfully performed all requirements of the Mined Land
Reclamation Act, and complied with the Rules and Regulations adopted in accordance
therewith, then this obligation shall be void; otherwise it shall remain in full force and
effect.

If the Mining and Reclamation Plan provides for periodic partial reclamation of
the disturbed lands, and if the lands are reclaimed in accordance with such Plan, Act
and regulations, then Principal may apply for a reduction in the amount of this Surety
Bond.

In the converse, if the Mining and Reclamation Plan provides for a gradual
increase in the area disturbed or the extent of disturbance, then, the Division may
require that the amount of this Surety Bond be increased, with the written approval of
the Surety.

Bond Number
Permit Number M/037/040
Mine Name Velvet

This bond may be canceled by Surety after ninety (90) days following receipt by the Division and Principal of written notice of such cancellation. Surety's liability shall then, at the expiration of said ninety (90) days, cease and terminate except that Surety will remain fully liable for all reclamation obligations of the Principal incurred prior to the date of termination.

Principal and Surety and their successors and assigns agree to guarantee said obligation and to indemnify, defend, and hold harmless the Division from any and all expenses (including attorney fees) which the Division may sustain in the collection of sums due hereunder.

Surety will give prompt notice to Principal and to the Division of the filing of any petition or the commencement of any proceeding relating to the bankruptcy, insolvency, reorganization, or adjustment of the debts of Surety, or alleging any violation or regulatory requirements which could result in suspension or revocation of the Surety's license to do business.

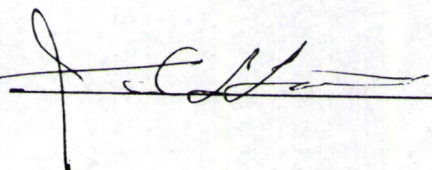
IN WITNESS WHEREOF, the Principal and Surety hereunto set their signatures and seals as of the dates set forth below.

Date September 1, 1994

U.S. Energy Corporation
Principal (Permittee)

By (Name typed): John L. Larsen

Title: President and CEO

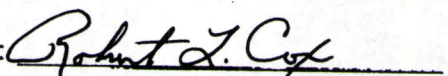
Signature: 

Date 8-18-94

Employers Mutual Casualty Company
Surety

By (Name typed): Robert L. Cox

Title: Attorney-in-fact


Signature: 

Page 3
MR-5
Attachment B

Bond Number _____
Permit Number M/037/040
Mine Name Velvet

SO AGREED this 17th day of November, 1994.

AND APPROVED AS TO FORM AND AMOUNT OF SURETY:



Dave D. Lauriski, Chairman
Utah State Board of Oil, Gas and Mining

*NOTE: Where one signs by virtue of Power of Attorney for a Surety, such Power of Attorney must be filed with this bond. If the Operator is a corporation, the bond shall be executed by its duly authorized officer.

Bond Number _____
Permit Number M/037/040
Mine Name Velvet

AFFIDAVIT OF QUALIFICATION

'Robert L. Cox, being first duly sworn, on oath deposes and says that he/she is the (officer or agent) Employers Mutual Casualty Company of said Surety, and that he/she is duly authorized to execute and deliver the foregoing obligations; that said Surety is authorized to execute the same and has complied in all respects with the laws of Utah in reference to becoming sole surety upon bonds, undertaking and obligations.

Signed: Robert L. Cox
Surety Officer Robert L. Cox

Title: Attorney-in-fact

Subscribed and sworn to before me this 18th day of August, 1994.

Lorene A. Triebwasser
Notary Public Lorene A. Triebwasser
Residing at: Casper, Wyoming

My Commission Expires:

4-10-, 1994

Emcasco Insurance Companies

P.O. Box 712 • Des Moines, Iowa 50303

No. 184640

CERTIFICATE OF AUTHORITY INDIVIDUAL ATTORNEY-IN-FACT

KNOW ALL MEN BY THESE PRESENTS, that:

1. Employers Mutual Casualty Company, an Iowa Corporation
2. Emcasco Insurance Company, an Iowa Corporation
3. Union Insurance Company of Providence, a Rhode Island Company
4. Illinois Emcasco Insurance Company, an Illinois Corporation
5. Dakota Fire Insurance Company, a North Dakota Corporation
6. American Liberty Insurance Company, an Alabama Corporation

hereinafter referred to severally as "Company" and collectively as "Companies", each does, by these presents, make, constitute and appoint:

ROBERT L. COX, LORENE A. TRIEBWASSER, INDIVIDUALLY, CASPER, WYOMING

its true and lawful attorney-in-fact, with full power and authority conferred to sign, seal, and execute its lawful bonds, undertakings, and other obligatory instruments of a similar nature as follows:

IN AN AMOUNT NOT EXCEEDING FIVE HUNDRED THOUSAND DOLLARS----- (\$500,000.00)

and to bind each Company thereby as fully and to the same extent as if such instruments were signed by the duly authorized officers of each such Company, and all of the acts of said attorney pursuant to the authority hereby given are hereby ratified and confirmed.

The authority hereby granted shall expire April 1, 1997 unless sooner revoked.**AUTHORITY FOR POWER OF ATTORNEY**

This Power-of-Attorney is made and executed pursuant to and by the authority of the following resolution of the Boards of Directors of each of the Companies at the second regularly scheduled meeting of each company duly called and held in 1990.

RESOLVED: The Chairman of the Board of Directors, the President, any Vice President, the Treasurer and the Secretary of Employers Mutual Casualty Company shall have power and authority to (1) appoint attorneys-in-fact and authorize them to execute on behalf of each Company and attach the seal of the Company thereto, bonds and undertakings, recognizances, contracts of indemnity and other writings obligatory in the nature thereof, and (2) to remove any such attorney-in-fact at any time and revoke the power and authority given to him. Attorneys-in-fact shall have power and authority, subject to the terms and limitations of the power-of-attorney issued to them, to execute and deliver on behalf of the Company and attach the seal of the Company thereto, bonds and undertakings, recognizances, contracts of indemnity and other writings obligatory in the nature thereof, and any such instrument executed by any such attorney-in-fact shall be fully and in all respects binding upon the Company. Certification as to the validity of any power-of-attorney authorized herein made by an officer of Employers Mutual Casualty Company shall be fully and in all respects binding upon this company. The facsimile or mechanically reproduced signature of such officer, whether made heretofore or hereafter, wherever appearing upon a certified copy of any power-of-attorney of the Company, shall be valid and binding upon the Company with the same force and affect as though manually affixed.

IN WITNESS WHEREOF, The Companies have caused these presents to be signed for each by their officers as shown, and the Corporate seals to be hereto affixed this 9th day of August, 19 94.

Seals



MERYL KAUZLARICH
MY COMMISSION EXPIRES
8-28-95

Robb B. Kelley
Robb B. Kelley, Chairman
of Companies 1,2,3 & 5

Bruce G. Kelley
Bruce G. Kelley, Chairman
of Companies 4 & 6

Philip T. Van Ekeren
Philip T. Van Ekeren, Secretary
of Companies 1,2,3,5;
Assistant Secretary of Company 4

Donald L. Coughenower
Donald L. Coughenower,
Assistant Secretary of Company 6

On this 9th day of August, AD 19 94 before me a Notary Public in and for Polk County, Iowa, personally appeared Robb B. Kelley, Philip T. Van Ekeren, Bruce G. Kelley, and Donald L. Coughenower, who being by me duly sworn, did say that they are, and are known to me to be the Chairman and Assistant Secretary, respectively, of each of The Companies above; that the seals affixed to this instrument are the seals of said corporations; that said instrument was signed and sealed on behalf of each of The Companies by authority of their respective Boards of Directors; and that the said Robb B. Kelley, Philip T. Van Ekeren, Bruce G. Kelley, and Donald L. Coughenower acknowledge the execution of said instrument to be the voluntary act and deed of each of The Companies.
My Commission Expires August 28, 1995.

Meryl Kauzlarich
Notary Public

CERTIFICATE

I, David L. Hixenbaugh of the Employers Mutual Casualty Company, do hereby certify that the foregoing resolution of the Boards of Directors by each of The Companies, and this Power of Attorney issued pursuant thereto on August 9, 1994

on behalf of **Robert L. Cox, Lorene A. Triebwasser**
are true and correct and are still in full force and effect.

In Testimony Whereof I have subscribed my name and affixed the facsimile seal of each Company this 18th day of August, 19 94

David L. Hixenbaugh
Vice-President

RECLAMATION SURETY ESTIMATE

U.S. Energy Corporation

Velvet Mine

DOGM file Number M/037/040

Prepared by Utah State Division of Oil, Gas & Mining

last revision

09/12/03

filename M037-040.xls

San Juan County

-During 2003 the site was reclaimed.

- Structures removed, portal, vents, & escapeways closed, and dump and facilities areas recontoured.

-Bond held for revegetation success.

Note: actual unit costs may vary according to site conditions last unit cost update 10/07/02

-Amount of disturbed area which will receive reclamation treatments = 22 acres

-Estimated total disturbed area for this mine = 22 acres

| Activity | Quantity | Units | \$/unit | \$ | Note |
|--|----------|----------|---------|-------|------|
| Ripping recontoured area prior to seeding | 22 acre | | 246 | 5412 | (09) |
| Composted manure (10 ton/acre) | 22 acre | | 300 | 6600 | (00) |
| Broadcast seeding | 22 acre | | 240 | 5280 | (00) |
| Equipment mobilization | 1 equip | | 2000 | 2000 | (00) |
| Reclamation supervision - 10% of bond amount | | | 10% | 212 | (15) |
| | | Subtotal | | 19504 | |
| | | | | 1950 | |
| 10% Contingency | | Subtotal | | 21454 | |
| | | | | 1914 | |
| Escalate for 3 years at 2.89% per year | | Total | | 23369 | |
| | | | | 23400 | |
| Rounded surety amount in year 2006 \$ | | | | 23400 | |
| Average cost per disturber acre = | | | | 1062 | |

SURETY ESTIMATE UPDATE

Umetco Minerals Corporation
Velvet Mine, M/037/040, San Juan County, Utah

Prepared by Utah Division of Oil, Gas & Mining
Last Update October 8, 1993

Comments:

- Approximate original estimate made in 1988, for \$55,271
- Original estimate escalated to 1993 dollars, using 2.5% escalation factor, \$62,535
- Escalation factors through 1992 are actual Means Historical Cost Indices
- Escalation factors for years 1993 and beyond are predicted
- Total disturbed area = 27 ACRES

| CALCULATIONS | YR | ESCAL FACTOR | BOND AMOUNT |
|---|------|-----------------|----------------|
| $F = P(1 + i)^n$ | 1987 | 0.0195 | \$0 |
| | 1988 | 0.0181 | \$55,271 |
| F = Future Sum | 1989 | 0.0177 | \$56,249 |
| P = Present Sum | 1990 | 0.0077 | \$56,682 |
| i = Escalation Factor | 1991 | 0.0127 | \$57,402 |
| n = number of periods | 1992 | 0.0221 | \$58,671 |
| | 1993 | 0.0142 | \$59,504 |
| Three Yr Average = 1.42% | 1994 | 0.0142 | \$60,349 |
| Used to Project 5 Yrs | 1995 | 0.0142 | \$61,206 |
| Into the Future | 1996 | 0.0142 | \$62,075 |
| From the Year 1993 | 1997 | 0.0142 | \$62,957 |
| | 1998 | 0.0142 | \$63,850 |
| Updated Surety Amount Rounded (1998 \$) | | | \$63,900 |

** Average cost per acre = 2,367 (\$/ACRE)

037/040

DIVISION OF OIL, GAS, AND MINING
BOND ESTIMATE

OPERATOR: Atlas Minerals
MINE NAME: Velvet
LOCATION: Lisbon Valley
COUNTY: San Juan
DATE: December 27, 1982

| Operation | Amount | Rate | Cost |
|---|-------------------------|----------------------------|----------------------------|
| CLEAN-UP | | | |
| 1. Removal of structures & equipment. | 7,800 ft ² | \$1.50/ft ² | \$11,700 |
| 2. Removal of trash & debris. | 22.0 acres | \$100/acre | \$2,200 |
| 3. Leveling of ancillary facilities pads and access roads. | 3.0 acres | \$1000/acre | \$3,000 |
| REGRADING & RECONTOURING | | | |
| 1. Earthwork including haulage and grading of spoils, waste and overburden. | 19.0 acres | \$1,000/acre | \$19,000 |
| 2. Recontouring of highwalls and excavations. | N/A | N/A | N/A |
| 3. Spreading of soil or surficial materials. | 40 hrs | 1000 \$60/hr | \$2,400 4000 |
| STABILIZATION | | | |
| 1. Soil preparation, scarification, fertilization, etc. | ----- | Included in regrading | ----- |
| 2. Seeding or planting. | 22.0 acres | \$125/acre | \$2,750 |
| 3. Construction of terraces, waterbars, etc. | ----- | Included in regrading | ----- |
| LABOR | | | |
| 1. Supervision. | 500 hrs | \$15/hr | \$7,500 |
| 2. Labor exclusive of bulldozer time. | | | |
| SAFETY | | | |
| 1. Erection of fences, portal coverings, etc. | 1 portal 3 boreholes | 3000 \$1,000 each | 3000 \$3,000 |
| 2. Removal or neutralization of explosive or hazardous materials. | N/A | N/A | N/A |
| MONITORING | | | |
| 1. Continuing or periodic monitoring, sampling & testing deemed necessary. | 120 80 hrs | \$15/hr | 1800 \$1,200 |
| OTHER | | | |
| 1. Fencing to control grazing | 2,000 ft | \$1.25/ft | \$2,500 |
| 2. Contingency costs | \$55,250 | 10% | \$5,525 |
| Total | N/A | N/A | \$60,775 |

Agreed on \$62,535 O.K.

FORM MR-RC
Revised January 30, 2003
RECLAMATION CONTRACT

File Number M/037/040

Effective Date Dec. 3, 2003

Other Agency File Number BLM

STATE OF UTAH
DEPARTMENT OF NATURAL RESOURCES
DIVISION of OIL, GAS and MINING
1594 West North Temple Suite 1210
Box 145801
Salt Lake City, Utah 84114-5801
(801) 538-5291
Fax: (801) 359-3940

RECEIVED

NOV 28 2003

DIV OF OIL GAS & MINING

RECLAMATION CONTRACT

---ooOoo---

For the purpose of this RECLAMATION CONTRACT the terms below are defined as follows:

| | |
|---|---|
| "NOTICE OF INTENTION" (NOI): (File No.) | <u>M/037/040</u> |
| (Mineral Mined) | <u>URANIUM</u> |
| "MINE LOCATION": | |
| (Name of Mine) | <u>VELVET MINE</u> |
| (Description) | <u>SE/4, NE/4, NW/4 SE/4, NW/4 SW/4</u> |
| | <u>section 3 T31S R25E S1E1M</u> |
| | <u>SAN JUAN COUNTY, UTAH</u> |
| "DISTURBED AREA": | |
| (Disturbed Acres) | <u>22 ACRES</u> |
| (Legal Description) | <u>(refer to Attachment "A")</u> |
| "OPERATOR": | |
| (Company or Name) | <u>U.S. ENERGY CORP.</u> |
| (Address) | <u>877 N. 8th W.</u> |
| | <u>RIVERTON, WY 82501</u> |
| (Phone) | <u>(307) 856-9271</u> |

"OPERATOR'S REGISTERED AGENT":

Name)

(Address)

(Phone)

DANIEL P. SVILAR, GENERAL COUNSEL

877 NORTH 8TH WEST

RIVERTON, WY 82601

(307) 856-9271

"OPERATOR'S OFFICER(S)":

KEITH G. LARSEN, PRESIDENT

HAROLD F. HERRON, VICE PRESIDENT

DANIEL P. SVILAR, SECRETARY & GENERAL
COUNSEL

SURETY":

(Form of Surety - Attachment B)

SURETY BOND

"SURETY COMPANY":

(Name, Policy or Acct. No.)

EMPLOYERS MUTUAL CASUALTY COMPANY

"SURETY AMOUNT":

(Escalated Dollars)

\$23,400.00

"ESCALATION YEAR":

2006

"STATE":

State of Utah

"DIVISION":

Division of Oil, Gas and Mining

"BOARD":

Board of Oil, Gas and Mining

ATTACHMENTS:

A "DISTURBED AREA":

B "SURETY":

This Reclamation Contract (hereinafter referred to as "Contract") is entered into between U.S. ENERGY CORP. the "Operator" and the Utah State Division of Oil, Gas and Mining ("Division").

WHEREAS, Operator desires to conduct mining operations under Notice of Intention (NOI) File No. M/037/040 which has been approved by the Utah State Division of Oil, Gas and Mining under the Utah Mined Land Reclamation Act, Sections 40-8-1 et seq., Utah Code Annotated, (1953, as amended) (hereinafter referred to as "Act") and implementing rules; and

WHEREAS, Operator is obligated to reclaim that area described as the Disturbed Area as set forth and in accordance with Operator's approved Reclamation Plan, and Operator is obligated to provide surety in form and amount approved by the Division, to assure reclamation of the Disturbed Area.

NOW, THEREFORE, the Division and the Operator agree as follows:

1. Operator agrees to conduct reclamation of the Disturbed Area in accordance with the Act and implementing regulations, the approved Notice of Intention and Reclamation Plan received AUGUST 23, 1978 & JANUARY 27, 1984The Notice of Intention and the Reclamation Plan, as amended, are incorporated by this reference and made a part hereof.
2. Concurrent with the execution hereof, Operator has provided surety to assure that reclamation is conducted, in form and amount acceptable to the Division. Such surety as evidenced by the Surety Contract is in the form of the surety attached hereto as Attachment B and made a part hereof. The Surety Contract shall remain in full force and effect according to its terms unless modified by the Division in writing. If the Surety Contract expressly provides for cancellation, then, within 60 days following the Division's receipt of notice that the Surety Company intends to cancel the Surety Contract, the Operator shall provide a replacement Surety Contract in a form and amount reasonably acceptable to the Division. If the Operator fails to provide an acceptable replacement Surety Contract, the Division may order the Operator to cease further mining activities and to begin immediate reclamation of the Disturbed Area.
3. Operator agrees to pay legally determined public liability and property damage claims resulting from mining to the extent provided in Section 40-8-7(1)(e) of the Act.
4. Operator agrees to perform all duties and fulfill all reclamation requirements applicable to the mine as required by the Act and implementing rules, the Notice of Intention, as amended and the Reclamation Plan, as amended.
5. The Operator's liability under this Contract shall continue in full force and effect until the Division certifies that the Operator has reclaimed the Disturbed Area in accordance with the Act and implementing rules, the Notice of Intention, as amended and the Reclamation Plan, as amended.
6. If reclamation of discrete sections of the Disturbed Area is completed to the satisfaction of the Division, and the Division finds that such sections are severable from the remainder of the Disturbed Area, Operator may request the Division to certify that Operator has reclaimed such discrete sections of the Disturbed Area in accordance with the Act and Implementing rules, the Notice of Intention, as amended and the Reclamation Plan, as amended. If the Division makes such certification, Operator may make request to the Division that the aggregate face amount of the Surety Contract provided pursuant to paragraph 2 be reduced to an amount necessary to provide for completion of the remaining reclamation. The Division shall hear Operator's request for such reduction in accordance with the Board's Procedural Rules concerning requests for Agency Action.

7. Operator agrees to indemnify and hold harmless the State, Board and the Division from any claim, demand, liability, cost, charge, suit, or obligation of whatsoever nature arising from the failure of Operator or Operator's agents and employees, or contractors to comply with this Contract.
8. Operator may, at any time, submit a request to the Division to substitute surety. The Division may approve such substitution if the substitute surety meets the requirements of the Act and the implementing rules.
9. This Contract shall be governed and construed in accordance with the laws of the State of Utah.
10. If Operator shall default in the performance of its obligations hereunder, Operator agrees to pay all costs and expenses, including reasonable attorney's fees and costs incurred by the Division and/or the Board in the enforcement of this Contract.
11. Any breach that the Division finds to be material of the provisions of this Contract by Operator may, at the discretion of the Division, result in an order to cease mining operations. After opportunity for notice and hearing, the Board of Oil, Gas and Mining may enter an order to revoke the Notice of Intention, order reclamation, or order forfeiture of the Surety Contract, or take such other action as is authorized by law.
12. In the event of forfeiture of the Surety Contract, Operator shall be liable for any additional costs in excess of the surety amount which are required to comply with this Contract. Any excess monies resulting from forfeiture of the Surety Contract, upon completion of reclamation and compliance with this Contract, shall be returned to the rightful claimant.
13. This Contract including the Notice of Intention, as amended and the Reclamation Plan, as amended, represents the entire agreement of the parties involved, and any modification must be approved in writing by the parties involved.
14. Each signatory below represents that he/she is authorized to execute this Contract on behalf of the named party.

OPERATOR:

U.S. ENERGY CORP.

Operator Name

By Keith G. Larsen
Authorized Officer (Typed or Printed)

President
Authorized Officer - Position

[Signature] 11/25/03
Officer's Signature Date

STATE OF WYOMING)
) ss:
COUNTY OF FREMONT)

On the 25 day of November, 2003, KEITH G. LARSEN
personally appeared before me, who being by me duly sworn did say that he/she is the
PRESIDENT of U.S. ENERGY CORP and
duly acknowledged that said instrument was signed on behalf of said company by
authority of its bylaws or a resolution of its board of directors and said
KEITH G. LARSEN duly acknowledged to me that said
company executed the same.

[Signature]
Notary Public
Residing at REVERTON, WY 82501



MAY 10 2005
My Commission Expires:

DIVISION OF OIL, GAS AND MINING:

By Lowell P. Braxton
Lowell P. Braxton, Director

12-3-03
Date

STATE OF Utah)
COUNTY OF Salt Lake) ss:

On the 3rd day of December, 2003, Lowell P. Braxton
personally appeared before me, who being duly sworn did say that he, the said
Lowell P. Braxton is the Director of the Division of Oil, Gas and Mining,
Department of Natural Resources, State of Utah, and he duly acknowledged to me that
he executed the foregoing document by authority of law on behalf of the State of Utah.



Diane Holland
Notary Public
Residing at: Salt Lake City, Utah

5/1/06
My Commission Expires:

ATTACHMENT "A"

| | |
|--------------------------|------------------------------|
| <u>U.S. ENERGY CORP.</u> | <u>VELVET</u> |
| Operator | Mine Name |
| <u>M/037/040</u> | <u>SAN JUAN</u> County, Utah |
| Permit Number | |

LEGAL DESCRIPTION

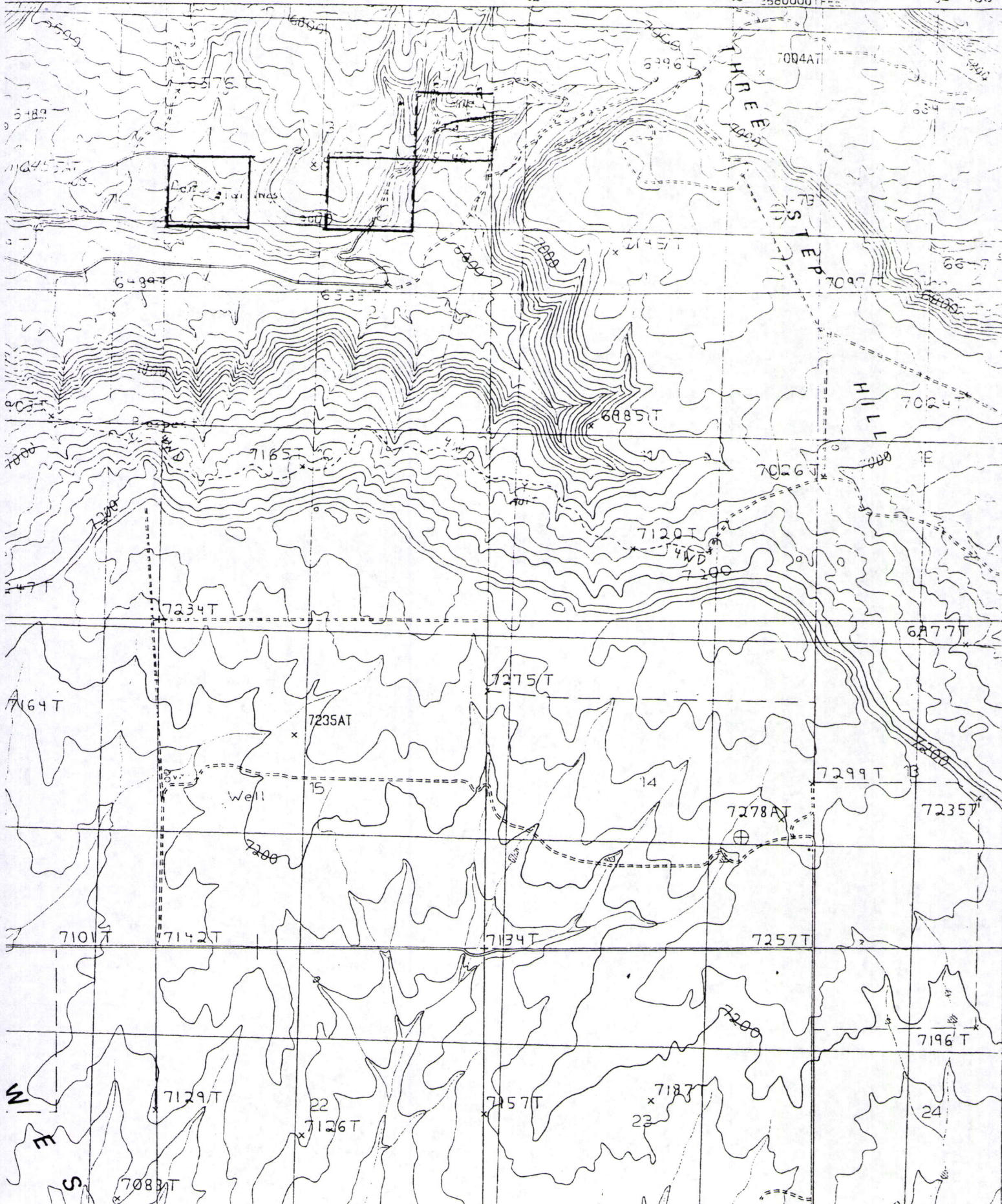
Include 1/4, 1/4, 1/4 sections, townships, ranges and any other descriptions that will legally determine where disturbed lands are located. Attach a topographic map of suitable scale (max. 1 inch = 500 feet; 1 inch = 200 feet or larger scale is preferred) showing township, range and sections and a clear outline of the disturbed area boundaries tied to this Reclamation Contract and surety.

The detailed legal description of lands to be disturbed includes portions of the following lands not to exceed 22 acres under the approved permit and surety, as reflected on the attached map labeled VELVET MINE ATTACHMENT 1 and dated OCTOBER 8, 2003:

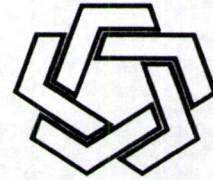
Portions of:

SE1/4 NE1/4, NW1/4 SE1/4, NW1/4 SW1/4
Section 3, Township 31 South, Range 25 East

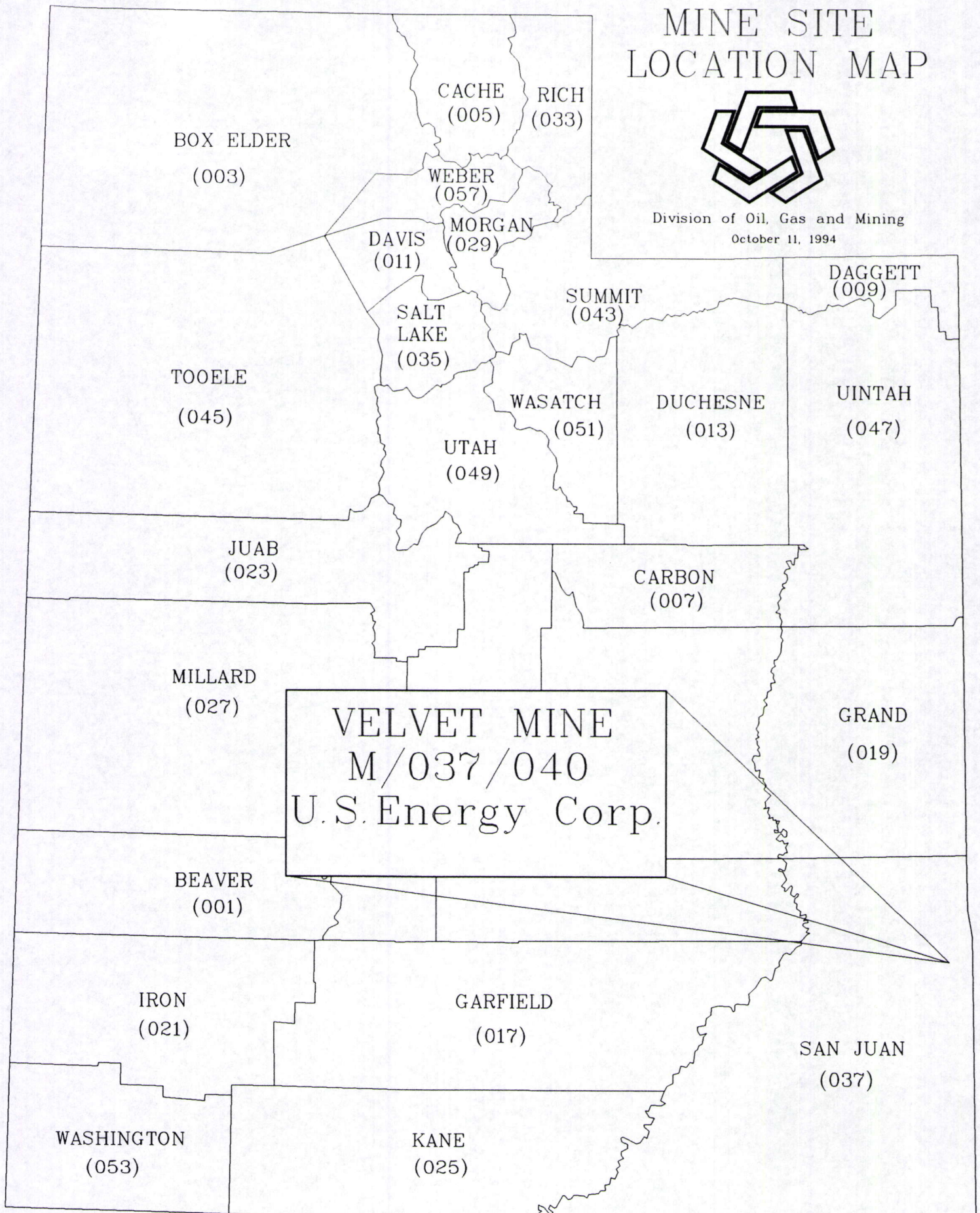
654 105°



MINE SITE LOCATION MAP



Division of Oil, Gas and Mining
October 11, 1994



SOP CANYON QUADRANGLE
UTAH-SAN JUAN CO.
7.5 MINUTE SERIES (TOPOGRAPHIC)

